

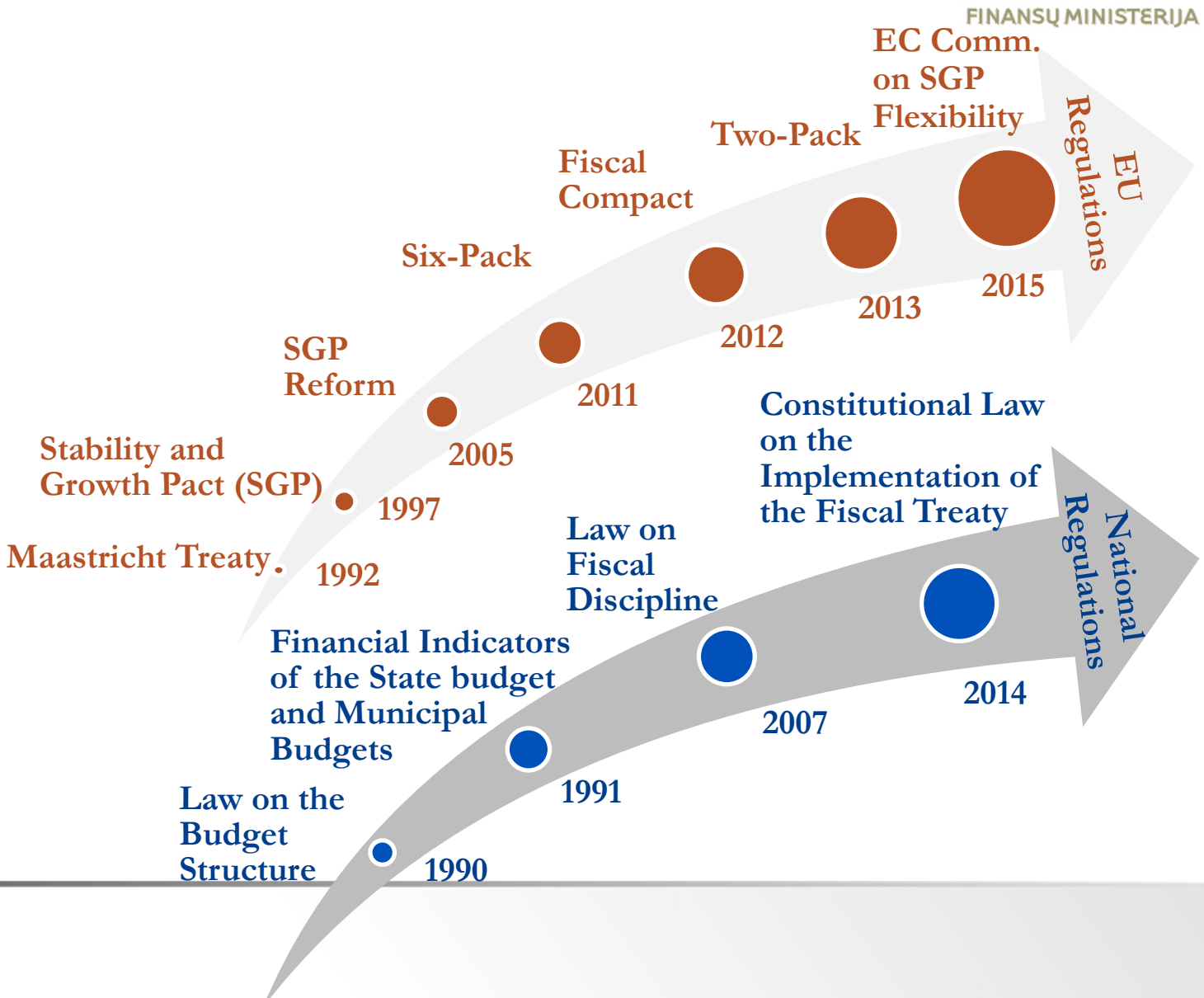
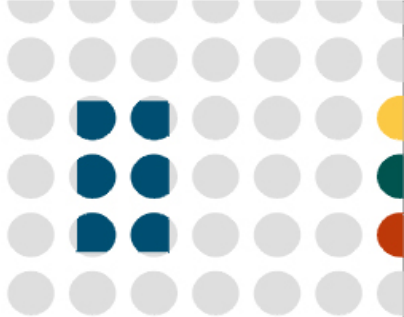
Fiscal rules in Lithuania

Algimantas Rimkūnas

Vice Minister, Ministry of Finance of
Lithuania

3 June, 2016

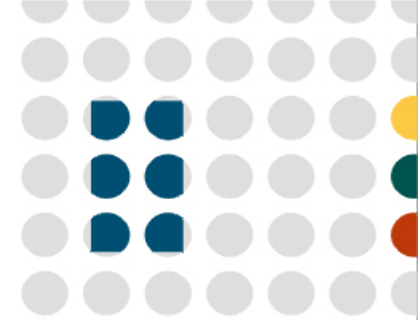
Evolution of National and EU Fiscal Regulations



FINANŠŲ MINISTERIJA

Comparison of Fiscal Aggregates Limited by National and EU Legislation

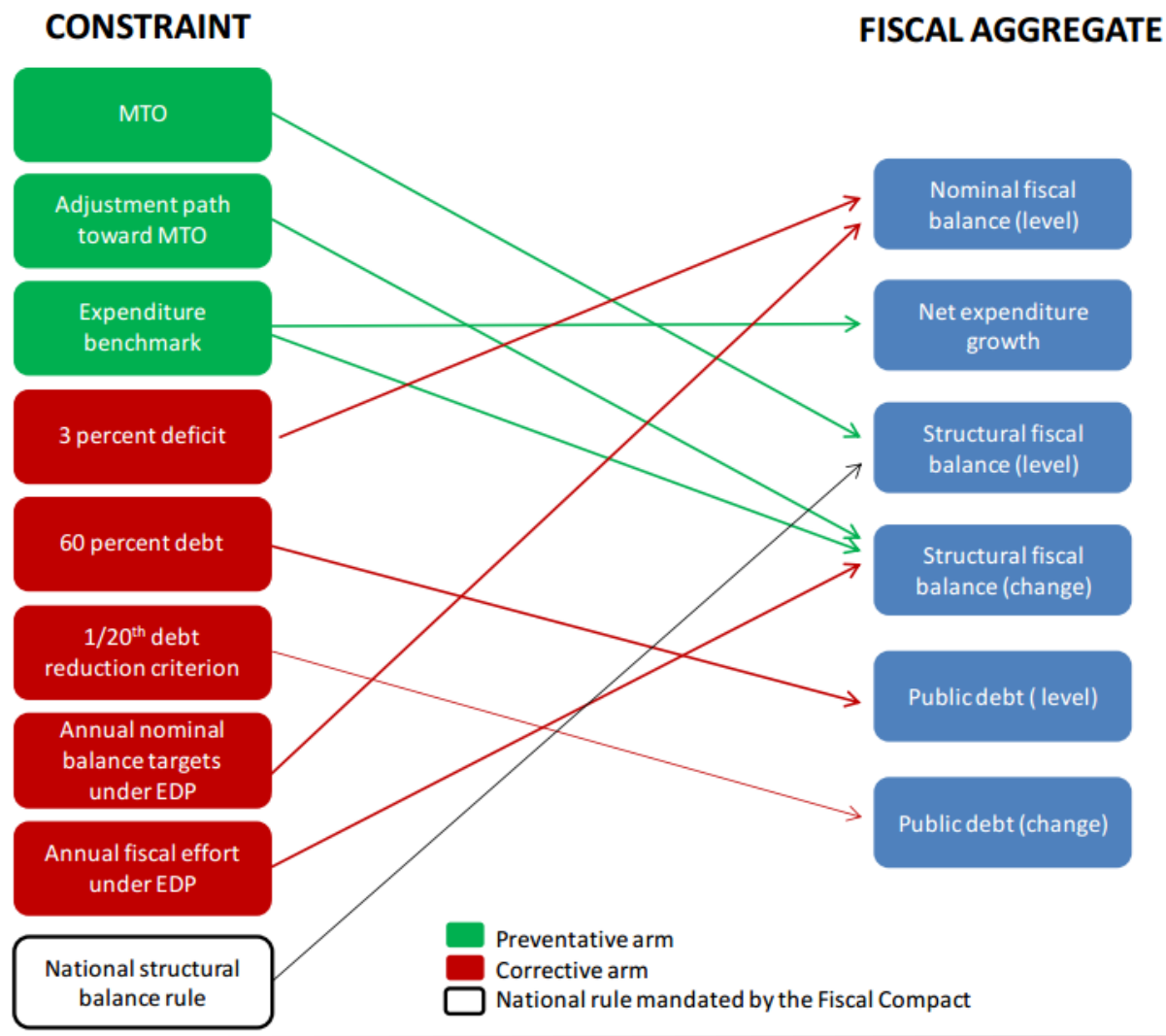
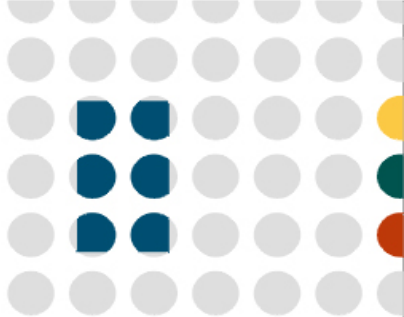
FINANŠŪ MINISTERIJA



Fiscal aggregate	Regulated by EU legislation	Regulated by national legislation
General Government <i>structural</i> balance	✓	✓
General Government <i>nominal</i> balance	✓	✓
General Government expenditure growth	✓	✓
General Government debt	✓	
Subsector debt, guaranteed debt and change in debt liabilities		✓
Subsector nominal and (or) structural balances		✓

Although Set of Fiscal Rules Appears Complex

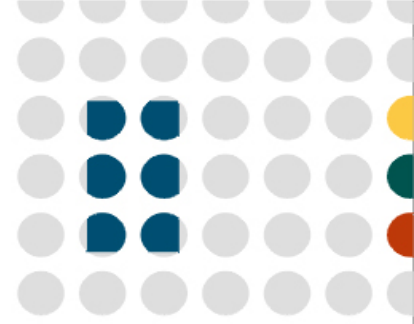
FINANSŪ MINISTERIJA



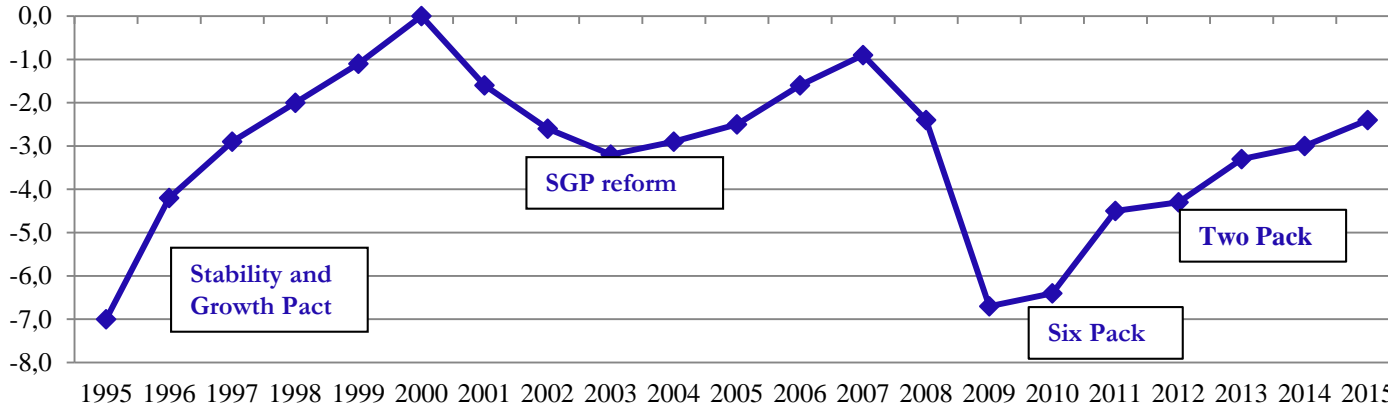
If to add-up national government's subsectors rules – complexity increases

...the EU Fiscal Reforms Have Positive Impact on Fiscal Outcomes

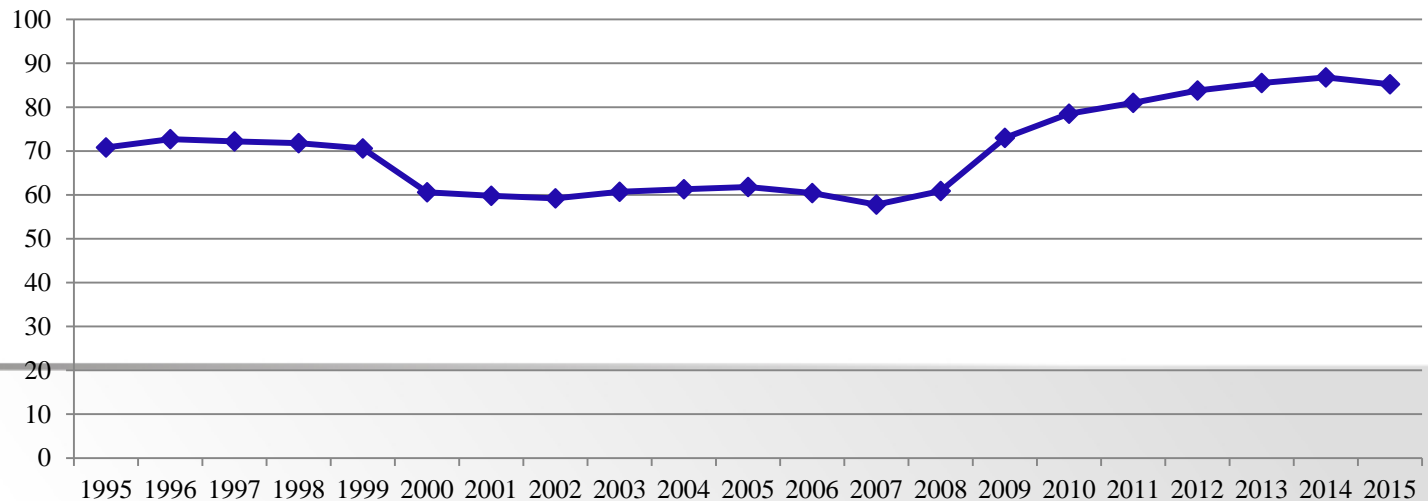
FINANŠŪ MINISTERIJA



General Government balance, EU, % GDP



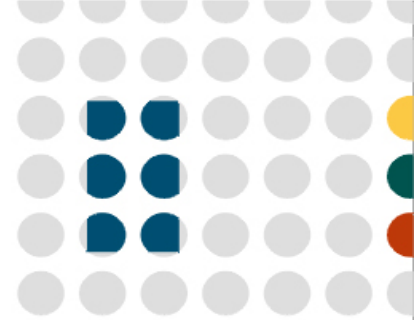
General Government debt, EU, % GDP



Source: Eurostat. EU average – based on number of EU members at a particular year. EU average debt for up to 1999 – the Euro zone figures due to absent data for the whole EU.

Challenges of Fiscal Rules Application (I)

FINANŠŲ MINISTERIJA



Structural balance

Output gap

One-offs

Expenditure growth: two rules (National and EU)

Methodological differences

Differences in scope

Expenditure growth

Exceptions for application

Dependence on past results

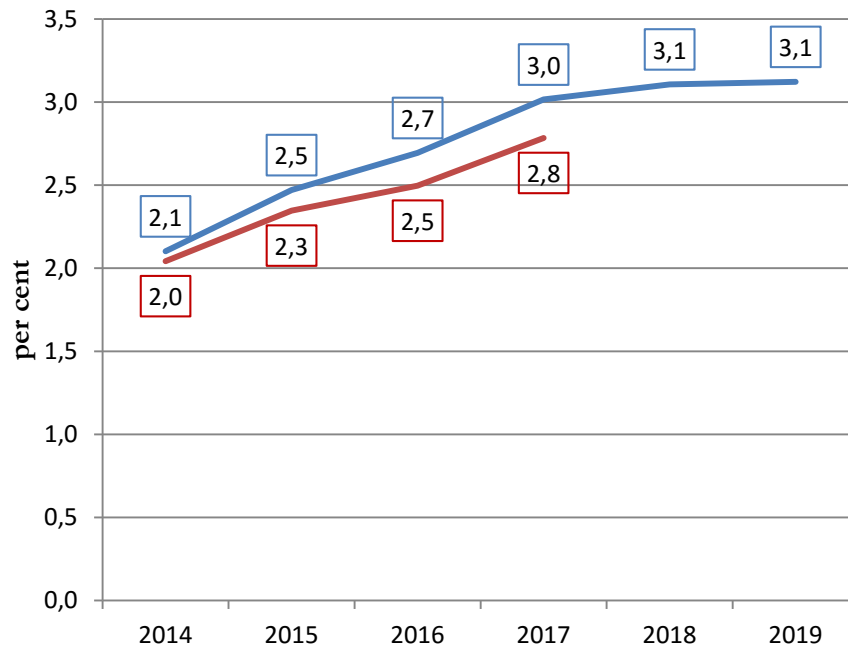
Valuation of investments,
discretionary revenue measures, etc.

Potential GDP Calculation and Respective Disputes of Calculations – Both at the Core of Fiscal Rules

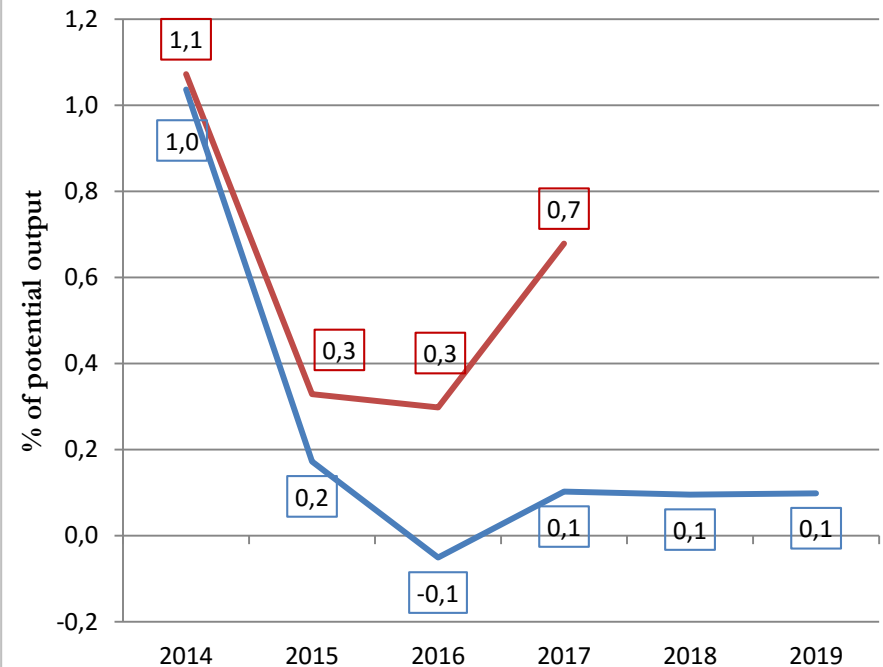
FINANSIJ MINISTERIJA

- *Shorter forecast horizon determines slower potential output growth*

Potential output growth rate according to the MoF economic development scenario (March 2016) using different length of time series



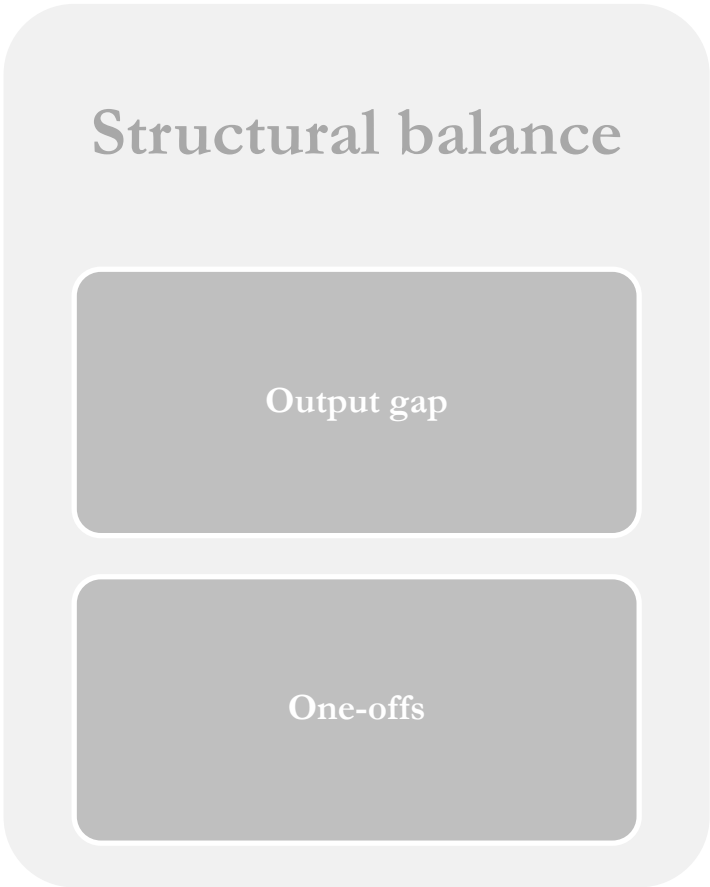
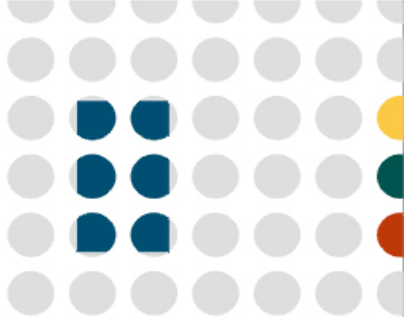
Output gap according to the MoF economic development scenario (March 2016) using different length of time series



— Potential output, calculated according to longer time series of the economic development scenario
 — Potential output, calculated according to shorter time series of the economic development scenario

— Output gap, calculated according to longer time series of the economic development scenario
 — Output gap, calculated according to shorter time series of the economic development scenario

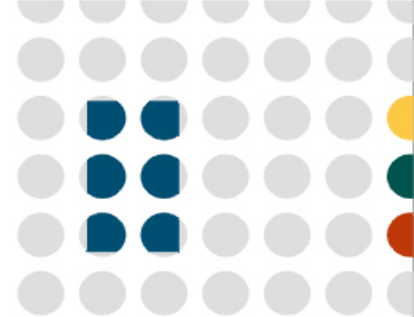
Challenges of Fiscal Rules Application (II)



More Space for Expenditure Growth If Structural Reforms Are Being Implemented

FINANSŲ MINISTERIJA

- *In 2016 Lithuania used an exception for pension reform*
- *Stability program of Lithuania for 2016 addresses EC to approve the New Social Model as a structural reform exception within SGP rules*



EU regulation

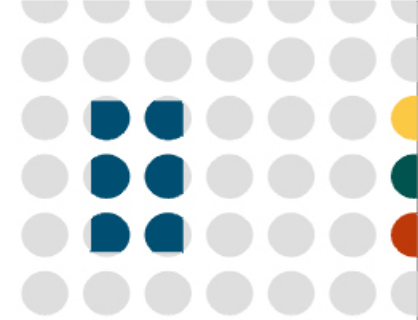
The EC evaluates the structural reform correspondence with EU SGP requirements

Structural reforms must meet these criteria:
Effect on public finance sustainability growth
Effect on economic potential growth
Independent valuation analysis on effects
Regulations have to be adopted

Expenditure on structural reforms cannot exceed 0.5 % GDP

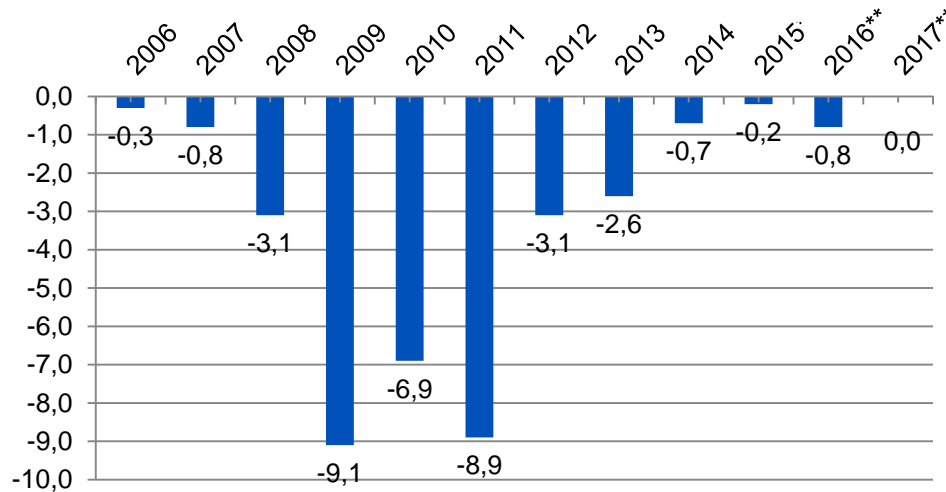
Factual Deficit in 2015 in Lithuania was the Lowest Since Restoration of the Independence

FINANSŲ MINISTERIJA

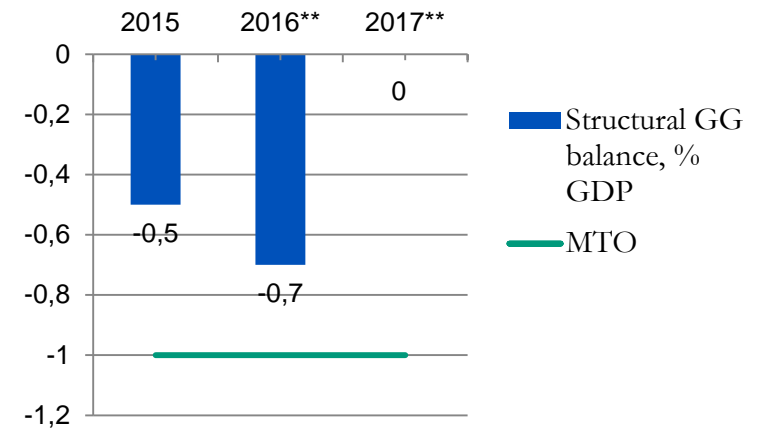


- *MTO for 2016-2018 is set at 1 % GDP structural general government deficit*
- *Based on assessment of the Stability Programme and taking into account the Commission 2016 spring forecast Lithuania is expected to comply with the provisions of the Stability and Growth Pact*

General Government balance, %GDP



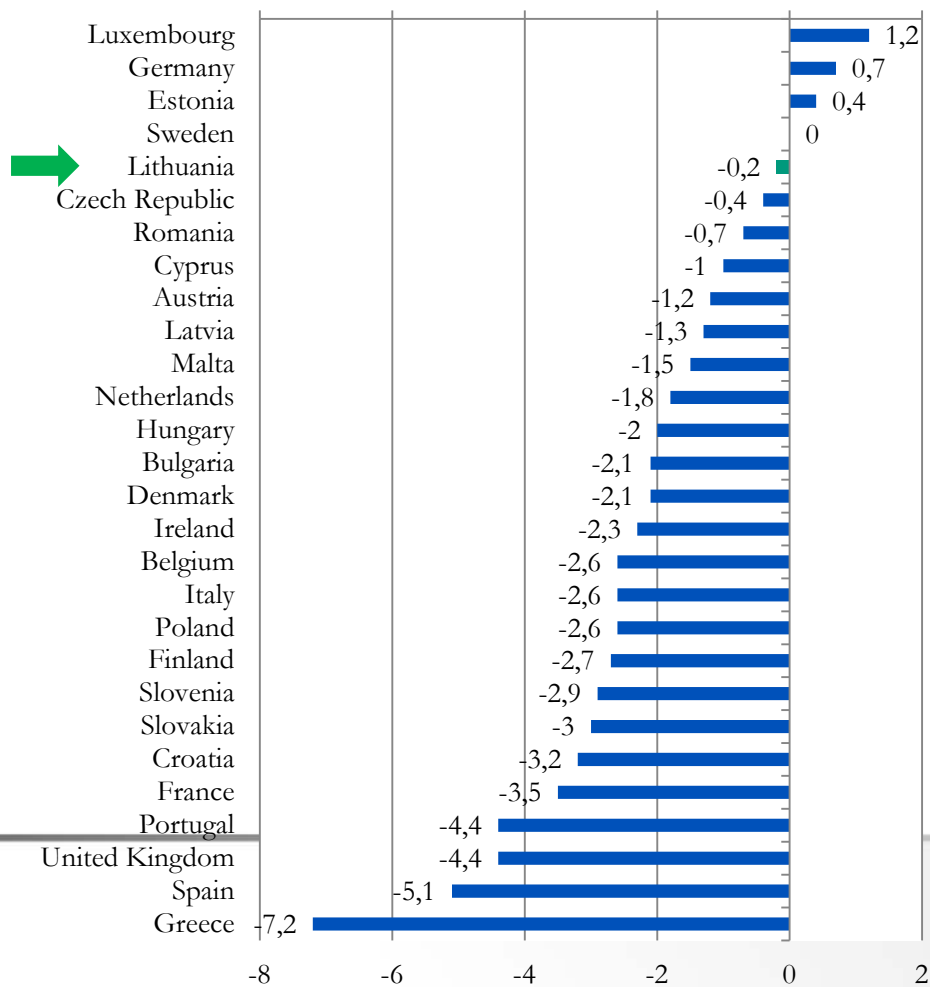
Structural General Government balance, % GDP



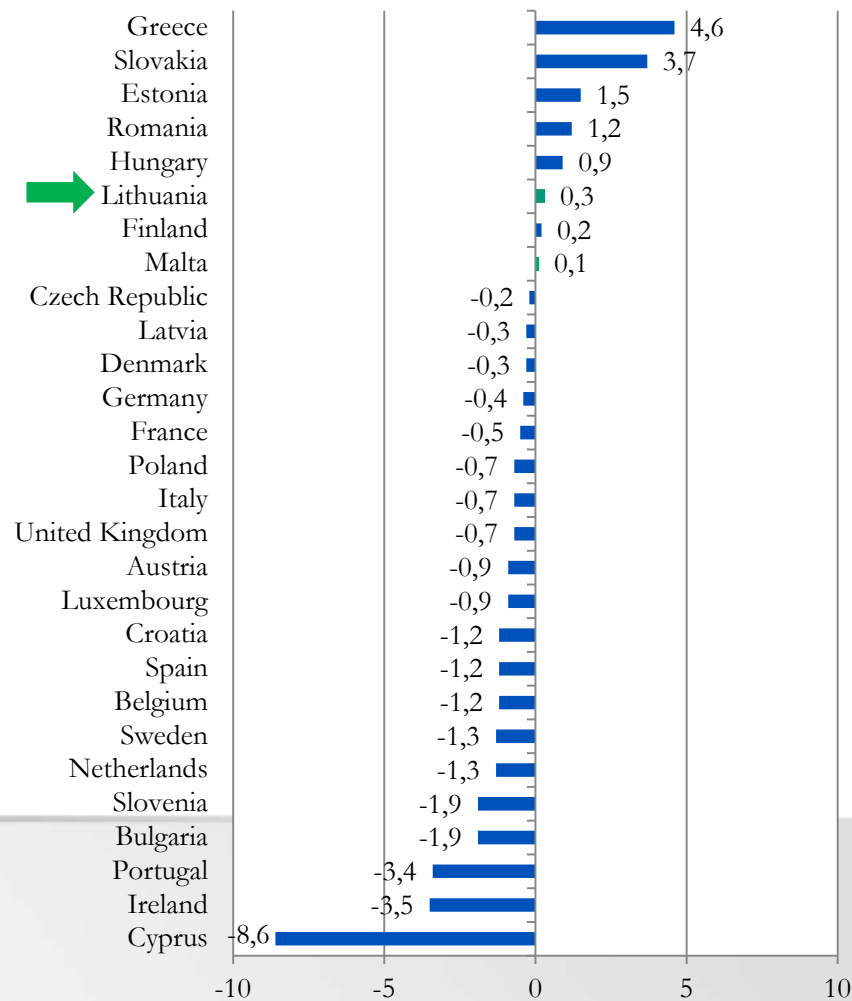
Fiscal Outcomes in EU 2015

FINANŠŪ MINISTERIJA

General Government balance 2015, % GDP

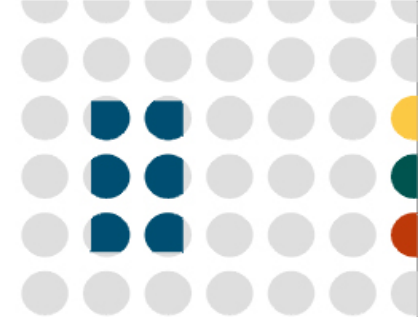


Change in General Government expenditure 2015, p.p. GDP

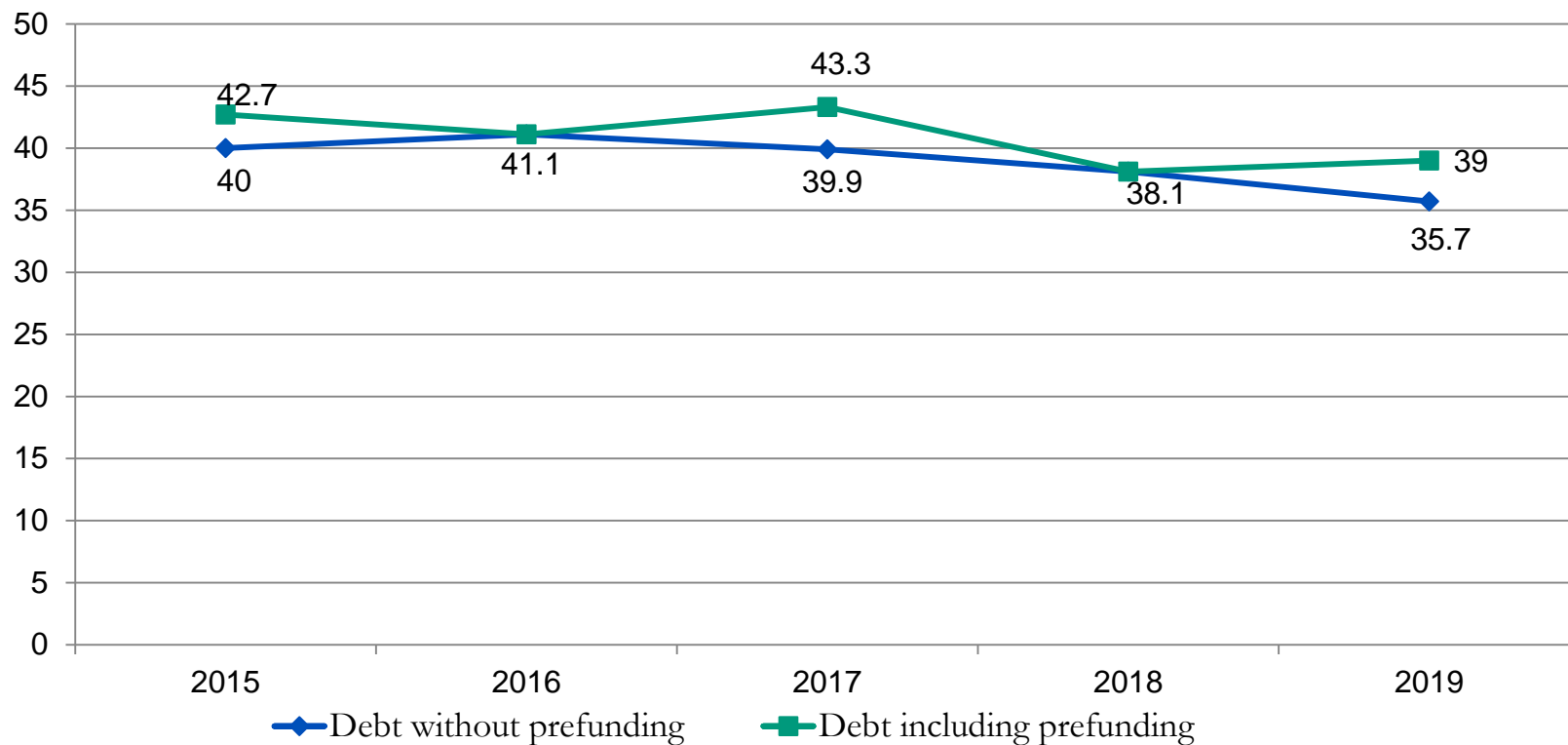


Government Debt at the Manageable Level

FINANŠŲ MINISTERIJA

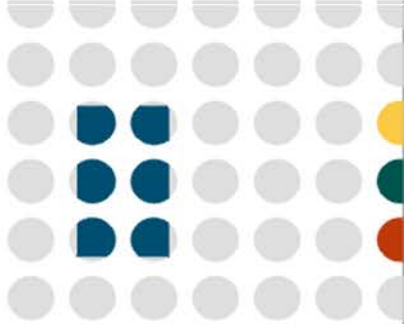


General Government Debt, % of GDP

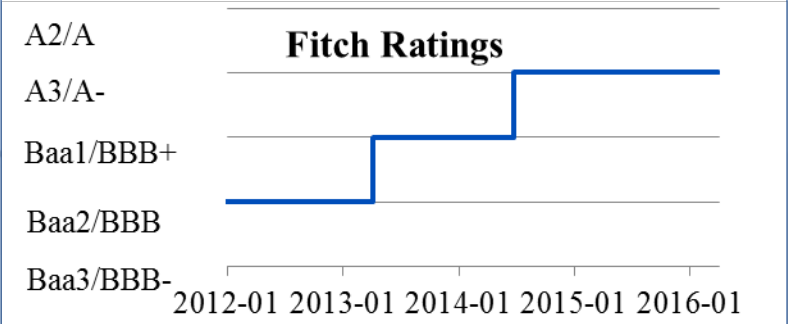
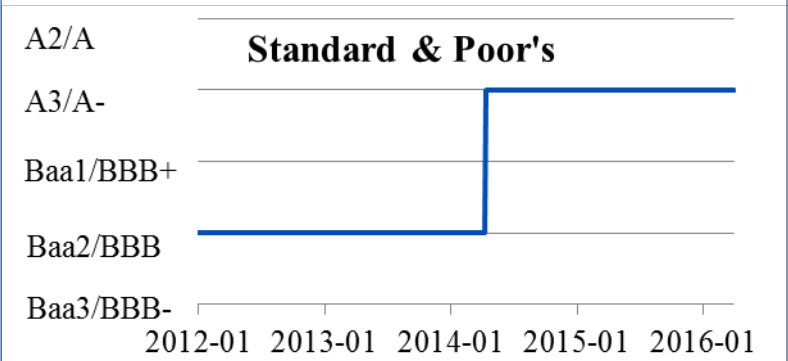
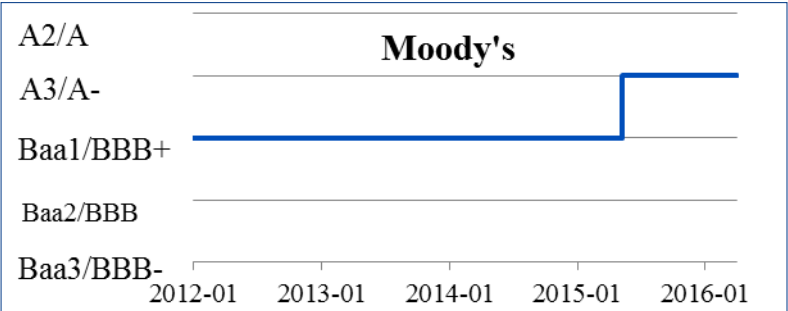
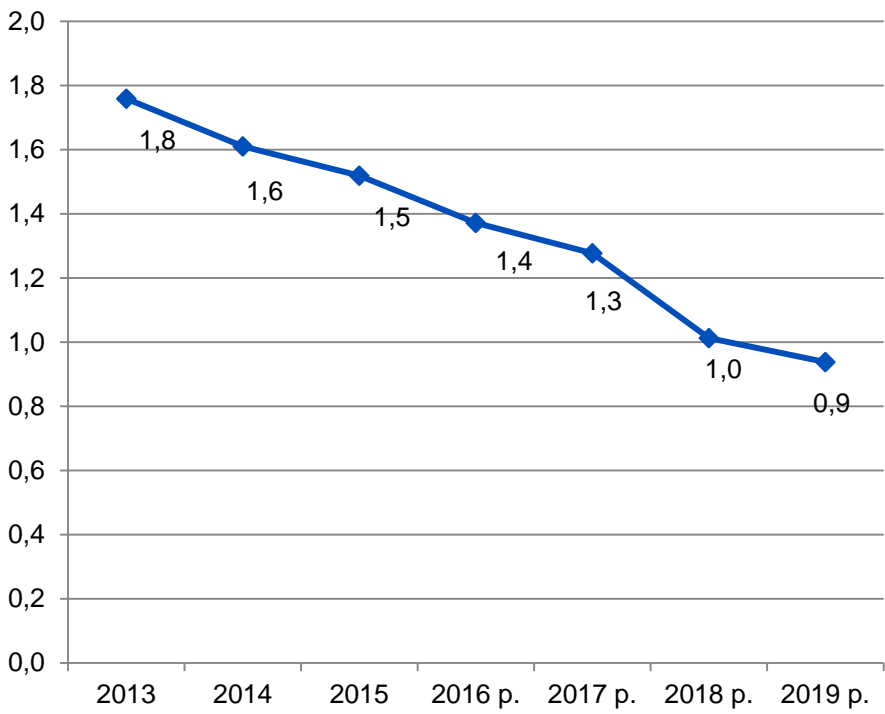


Responsible Fiscal Policy Results in Higher Credit Ratings and Lower Interest Expenditure

FINANSŪ MINISTERIJA



General Government interest expenditure % GDP

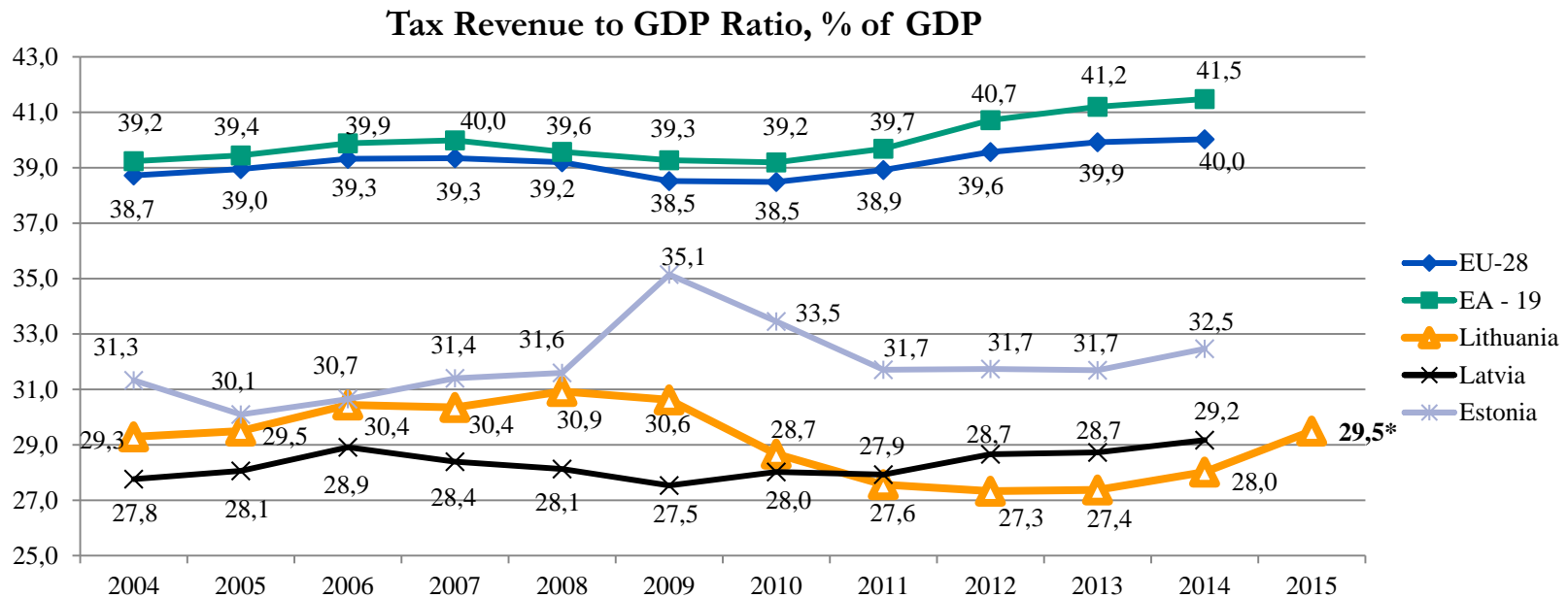


Source: Ministry of Finance

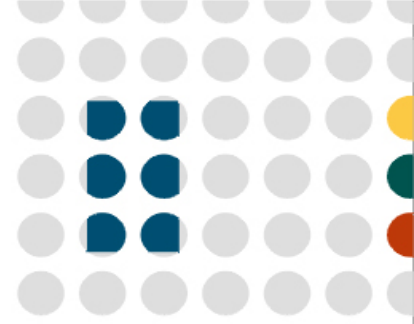
Pending National Challenges: Public Finance Quality Enhancement

FINANŠŲ MINISTERIJA

- *Better tax revenue administration*
- *More effective and efficient public expenditure*
- *More communication to society on where tax revenue is spent*



Source: Eurostat, preliminary data for 2015 by Statistics Lithuania



**Thank you for
your attention**